#121 - SEMINAR REPORT

Armament Industry
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Group

FUNDING EUROPEAN DEFENCE: WHAT ROLE AND INSTRUMENTS FOR THE EU?

ARES Group

October 2025

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AUTHOR'S PRESENTATION

ARES group

The Armament Industry European Research Group (Ares Group) was created in 2016 by The French Institute for International and Strategic Affairs (Iris), who coordinates the Group. The aim of the Ares Group, a high-level network of security and defence specialists across Europe, is to provide a forum to the European armament community, bringing together top defence industrial policy specialists, to encourage fresh strategic thinking in the field, develop innovative policy proposals and conduct studies for public and private actors.

CONTACT [PILOTS]

Jean-Pierre Maulny, Federico Santopinto, Louise Souverbie and Julia Tomasso
ares@iris-france.org
+33 (0)1 53 27 60 60

iris-france.org/ares
#ARESGroup

@AresGroup_EU

ARES Group - EU

ARES Seminar

FUNDING EUROPEAN DEFENCE: WHAT ROLE AND INSTRUMENTS FOR THE EU?

October 16th, 2025, Brussels

14:00 – 14:05: Welcome address

Jean-Pierre MAULNY, Deputy Director, French Institute for International and Strategic Affairs (IRIS)

14:05 – 14:25: Keynote Speech

Roberta METSOLA, President, European Parliament

14:25 – 15:33: EU funding for Defence and the Challenge of the Next MFF

Oliver CUSWORTH, Senior Policy Advisor, Defence and Security Office, European Investment Bank (EIB)

Daniel FIOTT, Head, Defence and Statecraft Programme, Centre for Security, Diplomacy and Strategy, Brussels School of Governance; Assistant Professor, Vrije Universiteit Brussel; Non-Resident Fellow, Real Instituto Elcano

Christophe GOMART, Vice-Chair of the Committee on Security and Defence, European Parliament

Gautier LEKENS, Vice-President International Relations, Thales

Moderation: **Maxime CORDET**, Senior Research Fellow, French Institute for International and Strategic Affairs (IRIS)

16:15 – 18:00: Policies to Support Member States' Military Budgets: What Conditionality from the EU?

Guillermo ARDIZONE GARCÍA, Ambassador Representative to the Political and Security Committee (COPS), Permanent Representation of Spain to the European Union

Lindsay CROISDALE-APPLEBY CMG, Ambassador and Head of the UK Mission to the European Union

Filip DE VARÉ, Chief Strategy Officer, John Cockerill Defense Weapon Systems

Alexandre ESCORCIA, Director for Euro-Atlantic Security at the Directorate general for International Relations and Strategy, Ministry for the Armed Forces of France

Elena LAZAROU, Director General, Hellenic Foundation for European and Foreign Policy **(ELIAMEP)**

Fabio LIBERTI, Deputy Head of Unit, SAFE Task Force, DG DEFIS, European Commission

Moderation: **Federico SANTOPINTO**, Senior Research Fellow, French Institute for International and Strategic Affairs (IRIS)

INTRODUCTION

On October 16th, 2025, the Armament Industry European Research Group (ARES Group) hosted a seminar in Brussels dedicated to the funding of European Defence, and more specifically, to the question: What role and instruments for the EU? In recent years, the European Union (EU) has developed different programmes to support the defence industry through its Multiannual Financial Framework (MFF). However, the Russian invasion of Ukraine, increasing uncertainty regarding the transatlantic security guarantee, and the necessity for Europe to meet NATO's new target of 5% of GDP for defence have collectively created a renewed sense of urgency. These developments have placed significant budgetary pressure on both Member States and EU Institutions.

Earlier in 2025, the European Commission presented the Readiness 2030, formerly known as ReArm Europe plan, introducing a series of new initiatives to support defence investment, notably through the National Espace Clause (NEC) and the Security Action for Europe (SAFE) instrument. By the end of the year, the European Defence Industry Reinforcement through common Procurement Act (EDIRPA) and Act in Support of Ammunition Production (ASAP) will be replaced by a new version with the European Defence Industry Programme (EDIP), whose final trilogue meeting coincided with the date of the seminar. The ARES scientific adviser Federico Santopinto has published a fact sheet mapping these various sources of European funding, which provides an overview of the evolving landscape. Moreover, the European Commission meeting on the implementation roadmap, held simultaneously with the seminar, will outline concrete objectives, goals and milestones to achieve European defence readiness by 2030.

With the ongoing negotiation for the next MFF and the current imperative of rearmament, the EU faces the challenge of laying the groundwork for a coherent industrial defence policy. Such a policy requires both, an adequate budget and a shared strategic vision. To explore these issues, the ARES group organized two panels bringing together high-level speakers from EU institutions, national administrations, and defence industry. The first panel, “EU Funding for Defence and the Challenge of the next MFF” examined how the EU can strengthen the European Defence Technological and Industrial Base (EDTIB) through the ordinary budget. The second panel, “Policies to Support Member States’ Military Budgets: What Conditionality from the EU?”, focused on the instruments available to assist Member States in increasing their defence spending, such as the SAFE programme and the activation of the escape clause for defence.

EU FUNDING FOR DEFENCE AND THE CHALLENGE OF THE NEXT MFF

The first panel examined the evolving landscape of European defence financing and the strategic challenges posed by the forthcoming MMF. Discussion highlighted the increasing financial scale of EU instruments, the coherence and complementary among them, and the role of the European Commission and European Investment Bank (EIB) in supporting national and European defence priorities.

EU Defence Instruments

The panel opened by recognising that the EU is, for the first time, addressing defence funding at an unprecedented scale. From 2026 onwards, three main EU instruments will structure defence financing. First the European Defence Fund (EDF), endowed with approximately €8 billion for 2021-2027, supports cooperative R&D projects involving at least three companies from three different EU Member States. Considered a success from an industrial perspective, the EDF has fostered genuine European cooperation in defence R&D by promoting common technological standards, interoperability, and the consolidation of supply chains. Second, the European Defence Industry Programme (EDIP) grants, under trilogue discussion, will provide around €1.5 billion until 2027 to support cooperation among defence industries and joint procurement initiatives. Eligible projects must include at least three EU Member States and 65% of components sourced within the EU. Finally, the Security Action for Europe (SAFE) instrument offers long-term, low-interest loans up to €150 billion by 2030 to help Member States make urgent defence investments. Projects generally require participation from at least two Member States, with a minimum of 65% EU content, though third countries may also be involved.

Two key challenges emerged from the discussion. The first concerns coherence among the instruments themselves. Panellists noted that the EDF, EDIP, and SAFE are deeply interconnected and should not be considered in isolation. The European Commission's approach aims to promote deeper European cooperation through financial incentives to develop common projects. However, some participants observed a tension between this approach and the flexibility introduced by the National Escape Clause under the Stability and Growth Pact, which could encourage renationalisation rather than coordination. The balance between communitarian and intergovernmental method thus remains a central question as it comes to European defence funding.

The second issue concerned how resources are allocated and strategically directed. One panellist, who had a brief look at the newly published Defence Readiness Roadmap, released on the same day as the seminar, stressed the difficulty of defining its objectives, as European policymakers must anticipate future threats across nearly all military domains. He also highlighted the document’s flexible wording, which allows Member States to adapt the four flagship initiatives currently identified. However, he noted the absence of any reference to command and control (C2) capabilities, viewing this as a critical gap should Europe need to act autonomously in the future. While some participants welcomed the European Commission’s effort to guide and provide clear strategic direction, others expressed concern about the scope of its involvement. They warned against institutional overreach, recalling that defence remains a national competence under the Treaties. Concerns were also raised about the potential push towards creating a single European defence market, an initiative not foreseen in existing legal frameworks.

Challenges for the Next Multiannual Financial Framework (MFF)

The next MFF allocates €131 billion euros to resilience, security, defence and space. Out of this envelope, between €100 and €110 billion will be likely support defence and security, and between €21 and €31 billion will cover space-related activities such as Galileo and Copernicus. Funding for defence and security primarily supports the EDF and EDIP, both of which will need to be renegotiated for the next MFF. Several proposals were discussed to enhance defence funding. These included tripling EDF budget, expanding the Defence Equity Facility (DEF) to attract more private capital, increasing short-term EIB financing for SMEs and strengthening EDIP through funds to scale production capacities. Introducing safeguards in the SAFE programme was also proposed to ensure equitable contract distribution among Member States while fostering cross-border cooperation.

The exploration of Eurobonds as a means to fund European defence was suggested during the panel. Eurobonds could finance the next MFF’s defence and security budget by raising capital on international markets, backed by the EU’s collective credit. This approach would provide significant resources without pacing additional weight on national budgets. Several panellists emphasised that any Eurobond initiative must be carefully structured to preserve fiscal sovereignty and ensure that funds prioritise European industries overall external suppliers. In addition, this was stressed by the idea that those proposals should require unanimous approval by the Council and include clear repayment mechanisms.

From an industry perspective, panellists emphasised the need for a clear, long-term strategy covering the entire MFF period. This would provide budgetary stability, reducing the need for annual revisions, which is necessary to support a stable management of defence industry programs. The industry side also stressed that the growth of EU-level funding should complement, rather than replace national defence budgets, which must remain a top priority for Member States. Concerns were raised about potential fragmentation and complexity within the European industrial landscape. Panellists recommended drawing lessons from past EDF programs to capitalise on successful partnerships, consolidate supply chains, and ensure that projects translate into concrete military capabilities. Evaluations of consortia should also consider the strategy for turning R&D outcomes into concrete product and to deliver them to the armed forces.

The remaining questions is how to finance these ambitious initiatives. While the next MFF seeks to enhance strategic autonomy and meet 50% collaborative spending target by 2030, but it also faces constraints from €168 billion next-generation EU debt repayment, which reduces available funds for new defence initiatives.

Financing Mechanism and the Role of the EIB

A representative of the European Investment Bank (EIB) underlined the institution's growing role in the defence sector, guided by its shareholders, the 27 Member States, as well as the needs of the defence sector. The EIB currently supports projects where demand exists under the new rules, which goes beyond dual-use activities which align with the Defence Readiness White Paper. Typically, the EIB does not finance more than 50% of any project, which serves as a badge of approval to attract additional investors, banks and funds. The bank support five key areas; critical infrastructure, R&D for defence companies to maintain technological leaderships, SMEs, new defence-focused investment funds and industrial capacity building. The collaboration is also largely established with the European Defence Agency, with whom they have a Memorandum of Understanding (MOU) but also with Directorate-General for Defence Industry and Space (DG DEFIS), ensuring that its lending complements instruments such as SAFE and avoids duplication of projects.

Concerns were raised from the public regarding the sustainability of Eurobonds, noting that the Commission would need to raise the funds on the market and reimburse them from the EU's ordinary budget, funded by Member State contributions and EU-owned resources. Questions remain about what would happen if Member States were unwilling to increase contributions or allow new EU resources to be raised. In response, the speaker emphasised the importance of creating a coherent funding "journey" for companies, moving from grants, such as EDF, to instruments like SAFE loans, and eventually to financing mechanisms that combine equity and revenue streams. In addition, the EIB's Venture Debt product, for example, provides loans of €10–20 million to support companies without diluting equity, with repayment tied to the next funding round. This innovative approach has already supported projects in quantum systems and drone manufacturing.

POLICIES TO SUPPORT MEMBER STATES' MILITARY BUDGETS: WHAT CONDITIONALITY FROM THE EU?

The discussion opened with a reflection on the European Union's ability to coordinate its various defence tools in a strategically guided manner. Panellists debated whether the Council and Member States alone can make concrete decisions on what to fund, and under what conditions, or whether stronger EU-level coordination and conditionality are required.

Planning Instrument

During the discussion panellist underlines that addressing Europe's defence capability gaps requires better alignment between EU instruments, national legislation and NATO frameworks to ensure coherence. Several speakers argued that the European Commission should provide stronger strategic guidance, a point that join the debate from the first panel regarding its evolving role in defence governance. A representative from the Commission clarified that the institution does not act in isolation because the regulations are discussed and endorsed by Member States and the Council, with final decisions remaining in the hands of the Heads of State and Government.

The discussion then turned to the need for a more structured form of European-level defence planning. The European Defence Agency (EDA) was repeatedly identified as a key factor in the process of coordination mechanism. Speakers argued that many Members States support reinforcing the role of EDA, as the Agency offers an inclusive framework that reflects the diversity of national perspectives and facilitates cooperation. However, several panellists noted that the Commission needs clearer guidance from Member States on their strategic priorities to turn political ambitions into concrete planning. While some questioned whether the EU should expand its role given that NATO already has a robust planning system, others argued that the EU must develop its own stronger planning capacity, especially as the United States provides most of NATO's critical enablers, that European union currently is lacking.

From an industrial perspective, speakers highlighted the need for simpler and more consistent governance across EU and national initiatives. The current frameworks were described as complex and fragmented, which disturbs the defence industry's ability to operate efficiently. A more streamlined governance model at EU level would make European instruments more accessible and effective, ensuring responsible use of public funds and delivering tangible results for European defence readiness. Industry representative also emphasised that military must play an active role in defining the capability needs, allowing the defence sector to focus on developing systems that meet those operational requirements.

The SAFE Programme

Of the €150 billion proposed by the EU, nearly all has already been committed, the next step lies in ensuring its effective implementation. The programme was designed to provide financial assistance on highly favourable terms, including 45-year repayment periods, a 10-year grace period, and interest rates well below market levels. For many Member States, these conditions made SAFE an attractive financial instrument, while also reinforcing principles of solidarity, cooperation, and industrial acceleration. SAFE's overarching goal was to generate a "demand shock" that would give Europe's defence industry the visibility needed to invest and expand production capacity. Demand for participation exceeded expectations, with applications surpassing available funding by 20–25%.

However, access to SAFE comes with strict conditionality. Common procurement remains the central rule, with a limited derogation for purely national projects until 30 May 2026, which was a derogation requested by the Member States themselves. The European Council has identified nine flagship priority domains which guide where EU-level support should be concentrated. All deliveries must be completed by 2030 as the payment will be triggered by the completion of milestones. So, if a country takes up financial assistance and then the industry cannot deliver, well, the financial assistance will not be released. Furthermore, eligibility criteria require that at least 65% of the value of components originate within the European Union, ensuring that public funding directly reinforces the European Defence Technological and Industrial Base (EDTIB). For more complex systems, beneficiaries must also demonstrate a European design authority, guaranteeing strategic autonomy and protection from third-country control. SAFE is also notable for being the most open EU defence instrument to date, allowing participation of like-minded partners such as the United Kingdom and Canada, if they have signed Security and Defence Partnerships with the EU to meet conditions on security of supply and financial contribution. Negotiations with these partners are ongoing, and the Council has underlined the need for swift agreements to enable timely project inclusion.

The discussion addressed the division of responsibilities in implementing the SAFE instrument. As one panellist noted, injecting €150 billion into the European defence market is expected to increase the performance of the sector, meaning that Member States should ultimately spend more jointly and within Europe. The discussed European Commission's role is to implement the regulation as adopted by the Council, ensuring consistent application across the Union. However, panellists made it clear that the verification and enforcement of eligibility criteria remain the responsibility of Member States. To support them, the Commission has established a dedicated programme committee for SAFE, providing technical guidance and methodological tools. The Commission also retains the right to conduct audits to verify compliance.

The National Espace Clause

The discussion also addressed the National Escape Clause (NEC), a fiscal mechanism that allows Member States to temporarily deviate from the Stability and Growth Pact to increase defence spending. Unlike the SAFE instrument, the NEC carries no direct conditionalities. While this flexibility enables governments to boost investment in defence, it also raises several questions regarding coordination, fiscal discipline, and strategic coherence. Under the current framework, Member States may classify specific defence expenditures as exempt from their fiscal targets. However, this exemption applies only to certain categories of equipment and spending, which immediately creates two key challenges. First, decisions on how to use these additional funds rest entirely with national authorities, raising concerns about the lack of coordination at the EU level. Second, the definition excludes many dual-use or civil-defence expenditures that are increasingly central to Europe's broader total defence concept.

Several panellists drew attention to the contrast between SAFE and the National Escape Clause. While SAFE imposes strict conditions on the origin of components, European value content, and freedom from third-country control, such safeguards are absent in the NEC framework. This asymmetry could lead to fragmentation, as Member States might enter bilateral procurement agreements with third countries under the more flexible fiscal rules of the NEC. Given that the majority of the projected €800 billion in defence-related spending could fall under this clause rather than SAFE, the lack of harmonised conditionality was seen as a potential risk to coherence and strategic autonomy but also to fiscal stability. While SAFE provides long-term, low-interest loans with clear repayment terms, the National Escape Clause offers budgetary flexibility without ensuring consistent fiscal discipline. Some panellists warned that this could raise concerns about the credibility of certain European states in capital markets. Finally, speakers noted that governments will face a difficult task in balancing defence investments with other spending priorities. Yet, they agreed that this challenge also presents an opportunity by directing NEC related spending toward regions with innovation potential and industrial capacity what could strengthen both defence readiness and regional cohesion.

CONCLUSION

One message emerges clearly from the discussions: Europe must be able to produce more, faster, and with greater strategic control over its defence capabilities. Strengthening the European Defence Technological and Industrial Base (EDTIB) is not only an industrial priority but also a political and strategic imperative for achieving greater European sovereignty. The discussions showed that the European Union is taking major steps to strengthen its defence through new funding tools and closer coordination among Member States. Programmes like the EDF, EDIP, and SAFE aim to boost cooperation, support the defence industry, and make spending more efficient. Building a truly integrated European security architecture requires aligning national, EU, and NATO frameworks while ensuring that resources are directed to the right priorities in a coordinated manner. Ultimately, Europe's ability to reach the level of readiness by 2030 will depend not only on the amount of money available but on how it is used. The European Union, the Member States, and the defence industry must act together to ensure that investments strengthen Europe's collective capacity to defend itself.

The Armament Industry European Research Group

Armament Industry
European Research
Group

2 bis, rue Mercœur - 75011 PARIS / France
+ 33 (0) 1 53 27 60 60
ares@iris-france.org

iris-france.org/ares

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